

**Regular Meeting of Board of Directors**  
**New Mexico Lottery Authority**  
**November 05, 2013**  
**MINUTES**

**Call to Order:** Board Chair D. Salzwedel called the meeting to order at 9:13 a.m. D. Salzwedel asked for roll call. Present and constituting a quorum were; Mark Koson, Amy Bailey, Dan Salzwedel and Salvatore Baragiola. J. Kubiak was absent at the time of roll call, but will be joining the Board meeting via phone. P. Guerin was absent at the time of roll call, but will be joining Board meeting soon. C. Austin was absent, due to family emergency.

The following employees were present from NMLA: Tom Romero, Adriana Binns, Sylvia Jaramillo, Evelyn McKnight, Pam Poteat, Dave Ramirez, Vince Torrez, Wilna Atencio, Mary Stanford, Michael Boland, Linda Hamlin, Karla Wilkinson, Jessica Quintana, Jessica Jinzo, Wendy Creel, LouAnn Pacheco, and Gale Johnson. Also present were Randy Reeves, Matt Worley, Frank Duran, Karen McCallum, Christopher Cunningham, Dennis Smith, Todd Bauman, Mike Schroeder, Art Kiuttu, Bob Conklin, and Mary Smith, NM Attorney General's office.

Board Chair D. Salzwedel advised that a new procedure has been set up for anyone wishing to make a Public Comment or Presentation on a board agenda item to stop by the Board secretary's desk and sign up.

Board Chair D. Salzwedel advised that the following Board members were appointed to the three subcommittees and a master calendar was sent to all board members.

Operations Committee: S. Baragiola, Chair; P. Guerin and C. Austin  
Finance Committee: M. Koson, Chair; J. Kubiak and D. Salzwedel  
Personnel Committee: A. Bailey, Chair, M. Koson and D. Salzwedel

**Approve Proposed Agenda:** D. Salzwedel called for a motion to approve the proposed agenda. D. Salzwedel advised that item V, C-3 Financial Audit Report be removed from agenda. A. Bailey made the motion to accept the amended proposed agenda; second by M. Koson. All in favor, 4-0.

**Approve Minutes of July 11, Board of Director's Meeting:** D. Salzwedel called for a motion to approve the minutes from the July 11, 2013 Board meeting. M. Koson moved to approve the minutes; second by A. Bailey. All in favor, 4-0.

**Public Comment:** There was no public comment.

**Reports:**

**CEO:**

**Employee Recognition:** T. Romero and the Board recognized Michael Boland and LouAnn Pacheco for five years of service and Wendy Creel and Wilma Atencio for fifteen years of service.

**General Update:** T. Romero gave a brief update on the lottery's online and instant ticket games and general overview of lottery operations. T. Romero reported that the Mega Million matrix changed effective October 19, 2013 and awaiting sales data. Powerball Power Play multiplier feature will go into effect January 22, 2014. This will allow players to increase their winnings for some of the prizes through a multiplier feature for an additional dollar.

S. Baragiola asked is there a way to gage the increase of sales in other games during Power Ball run ups? Several staff members responded and the lottery believes it does help sales and brings up other games, but due to the timing of settlements of instant tickets there is a weak positive correlation to other games.

Board member P. Guerin joined the meeting at 9:33 a.m.

D. Salzwedel asked a follow-up question if there was any research done on run ups. T. Romero deferred to other staff members and to external vendors. M. Worley provided some information on tracking, but no definitive research has been completed.

**OPERATIONS Committee Report – S. Baragiola, Committee Chair:**

**GTECH Printing – Instant Ticket Printing Agreement Extension:** S. Baragiola reported that Item V – B.1 and Item V – B.2 were discussed during the Operations Committee meeting. Both items are similar in that they are contract extensions for the Instant Ticket Printing Agreement. There are two viable options for the board to consider; the two year or the four year extension on both items. S. Baragiola deferred to T. Romero who will provide a brief report on the two items, separately.

T. Romero reported that in 2009, the lottery issued an RFP for printing services for instant scratcher games and the lottery received 3 bids from GTECH Printing Corporation (GTECH), Scientific Games International (SGI) and Pollard Game Group. During the process it was determined that GTECH and SGI were offering the best pricing, services and opportunities to the lottery; consequently the contract was awarded to GTECH Printing as the primary printer for four years at a cost of 1.48% of net sales. The contract did allow for up to four year extension, either a one year or a combination that will not exceed four years. Prior to this contract, the lottery was paying 1.75% of ticket sales at that time. This was a significant savings to the lottery at the 1.48% of net sales. During the same process, the lottery extended a contract to SGI as our secondary printer for four years and the option to extend up to four year extensions or any combination thereof; however, the pricing and cost is structured differently with SGI. It is referred to as “pricing per thousand”. The pricing was comparable to GTECH printing, but slightly higher because with SGI, the lottery would need to pay up front. With GTECH, we only pay on our net sales. That is the only difference between the two vendors. Both printers offer different products and different licensing products. GTECH printing also included research and additional trips to their printing plant to observe instant games being printed by GTECH.

T. Romero reported that the staff is recommending awarding the total four year extension to both GTECH Printing on their contract and to Scientific Games on their contract. The lottery is basing this on the fact that the lottery is seeing the trend that the pricing is increasing in the industry. New Mexico is currently paying one of the lower prices. There are some states paying lower, but those are states are significantly larger, like California, Florida and Texas. Idaho serviced by GTECH is currently paying 1.9% and Arkansas serviced by SGI, pays 2.2%. The pricing that the lottery has is reasonable and by extending the contract now, we are delaying the RFP process by 2 to 2 ½ years and it locks in the low prices and beneficial to the NM lottery and the 30% return to the state.

D. Salzwedel called for a recommendation. S. Baragiola made a motion on item V – B.1 that the contract extension for GTECH based on the presentation by T. Romero, be extended for the four years; second by P. Guerin.

Point of order was asked by T. Romero that P. Guerin be sworn in. D. Salzwedel responded point taken and requested that new board member be sworn in.

**Introduction of New Board Member:** D. Salzwedel introduced and welcomed Paul Guerin, Ph.D. to the Board of Directors.

**Oath of Office:** D. Salzwedel administered the Oath of Office to P. Guerin.

D. Salzwedel stated that there is a motion and a second on the floor for item V – B.1 GTECH Printing – Instant Ticket Printing Agreement Extension. There are no questions or comments, vote taken. All in favor, 5-0.

**Scientific Games International (SGI) – Instant Ticket Printing Agreement Extension:** S. Baragiola reported this item was vetted in the committee and recommends and makes the motion that item V – B.2; service contract extension with Scientific Games International be extended for four years; second by P. Guerin. All in favor, 5-0.

**On-Line Gaming System Product and Services Contract Extension:** S. Baragiola reported that item V – B.3., On-Line Gaming System and Related Product and Services is the satellite network that provides communication to over 1100 retailers that are currently involved in the lottery. Current contract issued on November 1, 2008 and will expire after seven years. S. Baragiola deferred to T. Romero who will provide a brief report on this item.

T. Romero reported that Intralot won this contract during a competitive RFP process in 2008. The original contract is for seven years with the option to extend the contract up to three additional one year terms or combination, not to exceed three years. The cost of the contract is 1.5% of total net sales for a current average of approximately \$2.3 million dollars per year. The lottery is requesting that the contract be extended now because this is a significant contract to the lottery. If the lottery doesn't extend the contract relatively soon, the lottery will need to begin the RFP process because a very lengthy conversion process has to take place, whether it's a new vendor or the existing vendor depending on their bids and equipment they're bidding on. If we extend the contract now, it will strengthen our relationship with Intralot who is more likely motivated to work closely with the lottery knowing that they have a longer term contract and have time to recover their cost and make a profit. By extending the contract to 2018, this will allow the lottery to work on new game concepts and ideas and get the sales up. Again, the trend in the industry is prices are rising significantly, for example Nebraska pays 4.5%; West Virginia pays 4.2%; Kansas pays 4.9%, Arizona 3.7% and Idaho pays 1.98%. Prior to Intralot, the lottery paid GTECH more than 8% of sales and paid for terminal and ITVM's fees. It benefits the lottery and scholarship fun to lock in this price until 2018.

S. Baragiola recommends that item V – B.3.; On-Line Gaming System Product and Service contract be extended for three years solely based on the price that is being offered and is not based on the performance of the company or if they like them or not; second by P. Guerin. All in favor, 5-0.

**Trucks and Bucks RFP:** S. Baragiola reported that item V – B.4 is a promotion to purchase five trucks to be used in the Trucks & Bucks game. The bottom line for the committee was not whether this was a good game or bad game, rather would the lottery lose money with this game. Is it a break even or make money game. S. Baragiola deferred to T. Romero.

T. Romero reported that in all the instant ticket product games there's a prize payout percentage attached to every game, a certain amount of payout to the public and that is based on our games sales and prize point. Typically a way to look at this is if you only sell 50% of the game and these prizes are spread out throughout the entirety of the game. If you were theoretically, to sell only 50% of the game you've only put out about 50% of your prize. So, the payout is going to be 63% of half the game, so you really never lose any money when you're doing these types of games. The idea of doing a Trucks & Bucks game as both prizes and second chance drawing is trying to attract different players, new players and lapse players. There are different players out there for different games. It's been six to seven years since the lottery

provided a Trucks & Bucks game. This game has been successful and popular. The lottery does look at the velocity of sales of all games.

J. Kubiak joined Board meeting via phone at 9:55 a.m.

A. Bailey wanted clarification that according to the executive summary report, the goal of this RFP is to purchase three trucks as prizes in the scratcher game and 2 trucks would be given away in a second chance drawing – is this still the plan. T. Romero responded and stated that is correct.

S. Baragiola recommends and makes the motion to approve item V – B.4 Trucks and Bucks based on the understanding that the lottery will not lose money on this promotion as presented; second by P. Guerin. All in favor, 6-0.

**NMLA Rules for On-Line Game:** D. Salzwedel reported that item V – B.5 NMLA Rules for On-Line Games is next and T. Romero will present. T. Romero reported the rules for online games relate to the changes being made to the Power Ball game in January 2014. These rules are promulgated by the Multi State Lottery Association. The Power Ball group voted to include a multiplier feature for the game. This will allow for prizes other than the jackpot and the \$1 million prize to be multiplied by as much as 5x and in some cases 10x for special promotions. The rules are created by MUSL and it is up to the lotteries to present to the board for consideration and adopt so that the lottery can utilize this promotion. The lottery is requesting that the Board approve these rules.

S. Baragiola reported that this item was vetted in the committee and made the motion that the Board adopts these rules in their entirety, as presented; second by P. Guerin. All in favor, 6-0.

**Policy Review Changes/Adjustments:** S. Baragiola reported and requested to defer item V – B.6 Policy Review Changes/Adjustments for the future. The discussion was the Board operates under a variety of Policies and Procedures and that the Policies and Procedures that fall under the Operations committee as well as other policies and procedures for other committees have not been updated in some cases for ten years. There was some discussion and in his opinion they shouldn't be reviewing potentially outdated policies. T. Romero and his staff should first update the policies and procedures and then present to the committee, with a letter of introduction that the policy has been updated. That would be the appropriate time to review these policies. A tentative date has been set as July 2014.

D. Salzwedel reported that there's a similar recommendation from the others (committees) in part to remand back to staff and place it in an appropriate or singular format and make whatever editorial changes might be required. Is that what you're referring to Mr. Baragiola? S. Baragiola stated, yes.

S. Baragiola reported that the Operations committee asked that the staff adopt a template that contains historical information on when it was adopted and re-issued and who approved the update and who takes ownership of the Policy and Procedures. T. Romero would bless all the policies but the person updating and approving that policy would be the author of that policy. S. Baragiola reported that there is a policy that says the CEO is the one who approves policies. S. Baragiola stated that once all policies have been updated, the CEO will then attach a letter (introduction or cover letter) accepting those policies and making them the policies of the authority. At that point, they (operations committee) should have access to them for review and recommendations, if any.

D. Salzwedel requested that the timeline be quicker than July 2014 and that this should be done as a matter or procedure annually.

M. Koson stated that the Board should establish a goal or timeline to accomplish this task. D. Salzwedel concurred. T. Romero reported after the discussion yesterday in the committee meetings, that his goal is

to very aggressively present all the policies and procedures to the Board for the February 2014 meeting, for at least the board's review and discussion and any of those policies and procedures the board would want changed or revised to be presented at the next tentative March 2014 Board meeting.

S. Baragiola makes the motion to defer any Policy Review Chances/Adjustments as it relates to the operations committee be remanded back to the staff for update/editorial and format changes and put in a continuity format with a February/March 2014 timeline; second by P. Guerin. All in favor, 6-0.

**FINANCE/AUDIT Committee Report – M. Koson, Committee Chair:**

**Business Meal and Travel Policy:** M. Koson reported on item V – C.1 – Business Meal and Travel Policy and will defer to T. Romero.

T. Romero reported that the lottery wanted to update the Business Meal and Travel Policy with the most current IRS approved rates, so that was one of the changes made. There were two other significant changes, the first was that any meals provided by the lottery or another entity or person, that there is a certain amount whether it's for breakfast, lunch or dinner, a certain amount will be backed out of any per diem that has been claimed by the employee. The purpose of this is to prevent double dipping or the perception of double dipping, where an employee is claiming per diem but yet their meals are actually provided by either the lottery or function of some business event. The second item is Board rate for board members attendance of Board and committee meetings. This would allow Board members at their option to request a \$60 rate reimbursement. This would be for physical attendance at Board meetings, committee meetings to offset expenses the board member may encounter and the time necessary to be at these meetings. This basically outlines a separate rate for Board members.

P. Guerin asked what are the rates based on; the meal rates and the Board reimbursement rates. T. Romero reported that the per diem rates are based on IRS guidelines and used the most current rates. The Board rates were based on discussion in the Finance committee with the members of that committee. As to what, would be reasonable reimbursement given the fact that Board members may be present for a full day or for several hours each day; that was the number arrived at by the committee members.

P. Guerin asked what the amount was before. T. Romero reported that there was no rate allowance for Board members, prior to this.

M. Koson reported that the Finance/Audit committee vetted this item and makes the motion to approve as presented by T. Romero; second by S. Baragiola. All in favor, 6-0.

**Financial Statements:** M. Koson reported that item V- C.2 will be reported by S. Jaramillo. S. Jaramillo presented a detailed review of the September 2013 financial statement. With the transfer made at the end of October, the Lottery has returned nearly \$583 million to education since inception of the lottery and for FY 2014, the lottery's net income return through September was more than \$10.4 million dollars. 4.7% more this year than last year was returned to the lottery scholarship fund. The lottery has returned 30.29% of gross revenue to the state, exceeding the 30% mandate.

**AUDIT Reports:** M. Koson reported that M. Boland presented five items to the Finance/Audit committee and each one was vetted in the committee. M. Boland's presentation was straight forward and each one was reviewed thoroughly and doesn't see a problem with any of them. No observations were reported. M. Koson asked if the motion to approve all five or go through each one individually. D. Salzwedel reported for the Boards benefit, we can do these individually. The suggestion is we do this as an aggregate group. There can be questions individually, but to vote on them as an aggregate group.

M. Koson made the motion to approve item V – C4, C5, C6, C7, and C8 as presented by M. Boland; second by A. Bailey. All in favor, 6-0.

**Policy Review Changes/Adjustments:** M. Koson reported that item V – C.9 is similar to what was discussed during the Operations committee reporting and would like to defer to the February/March 2014 Board meeting. D. Salzwedel asked if the motion is going to remand to staff editorial and format change similar to operations committee. M. Koson reported, yes that would be the motion.

M. Koson makes the motion to defer any Policy Review Chances/Adjustments as it relates to the Finance/Audit committee be remanded back to the staff for update/editorial and format changes and put in a continuity format with a February/March 2014 timeline; second by S. Baragiola. All in favor, 6-0.

**PERSONNEL Committee Report – A. Bailey, Committee Chair:**

D. Salzwedel requested that item V – D.2 moved and discussed before item V – D.1.

**Policy Review Changes/Adjustments:** A. Bailey reported on item V – D.2 in regards to Policy Review Changes/Adjustments made the motion as similar to the other two committees remand back to staff to do the editorial, format and review; second by M. Koson. All in favor, 6-0.

**EXECUTIVE CLOSED SESSION:**

At 10:24 a.m., D. Salzwedel called for a motion to move into closed executive session. A. Bailey made the motion for the Board to go into executive session under the NM Open meeting act, section 10-5-1, subsection H2 to discuss the limited personnel matter of the performance review of the CEO; second by M. Koson.

Attorney General, Mary Smith reported that A. Bailey incorrectly cited the open meeting act. The correct citation is 10-15-1. D. Salzwedel stated we really don't need the citation only the motion, correct? A. Bailey and M. Smith reported that the section of the law needs to be stated.

A roll call vote was taken to enter into executive closed session. M. Koson, yes; A. Bailey, yes; D. Salzwedel, yes; P. Guerin, yes; S. Baragiola, yes and J. Kubiak, yes via phone. All in favor, 6-0.

At 11:22 a.m., D. Salzwedel reported that a vote will be taken to go back to a public forum, public session with a motion that no decisions were made during the course of executive session. D. Salzwedel called for a motion to come out of Executive Session. A. Bailey moved to bring the board back to a public session and affirm in the motion that no votes or decisions were made during the executive session that was outside the topic of the personnel issue; second by M. Koson. A roll call vote was taken. M. Koson, yes; A. Bailey, yes; D. Salzwedel, yes; P. Guerin, yes; S. Baragiola, yes and J. Kubiak, absent. A. Bailey reported that J. Kubiak ended the call to get on the plane. The record will show that a no vote for J. Kubiak.

A. Bailey made a motion to table the topic under Executive Session for further review and reschedule at another time. D. Salzwedel reported reschedule in the not so distant future. Second by S. Baragiola. All in favor, 5-0.

**BOARD CHAIR:**

**Announcements:** D. Salzwedel welcomed the two new Board members, P. Guerin and C. Austin who couldn't attend today's meeting. Thanked lottery.

**ADJOURNMENT:** D. Salzwedel entertained a motion to adjourn the meeting. M. Koson moved to adjourn the meeting; second by P. Guerin. All in favor, 5-0. Meeting adjourned at 11:26 a.m.